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HOW TO CREATE A TIDAL WAVE OF FOREIGN INVESTMENT IN ELECTRICITY AND INFRASTRUCTURE? BY THESE 5 STEPS.

Not much works without electricity, and not much moves without roads, ports and railways to move it on. Infrastructure, including electricity, is the obvious key to unlocking the huge economic potential of Myanmar and the road to prosperity for its people. There is no lack of interested investors, willing to risk their capital to invest in power plants, toll roads, water facilities and railroads. The same goes for international banks and other lenders, who are happy to back them with the necessary funding, if the projects make sense. Opportunity is everywhere, the need is all around us. But even though the potential is enormous, a lot fewer deals really get done. Progress is being made, but the pace might be too slow for the country's thirst for energy, mobility and growth and to further its ambitious goals in the Myanmar Sustainable Development Plan.

How can we fix that? If Myanmar wants a tidal wave of FDI in badly needed infrastructure, what measures would make that happen? What are the most impactful policies the Government could choose to cause a massive increase in infrastructure, paid for by foreign capital? In this note, I set out the 5 steps for the Government to take which will have the most effect.

Highlights of this note

- ▶ We need to improve Myanmar's reputation by fast-tracking and completing a few smaller deals, right now
- ▶ The Government is going to need to assure foreign investors that it will perform its contracts and pay its bills.
- ▶ Myanmar should consider using "umbrella notes" to confirm its support for bilateral projects on a Government to Government level
- ▶ Maximize private investment by de-risking the projects to a reasonable level.
- ▶ The way commercial terms are being negotiated needs to change.

1. We need to improve Myanmar's reputation by fast-tracking and completing a few smaller deals, right now

The international business community is still very interested in Myanmar, but it is not convinced infrastructure deals can be successfully completed in the country. There is not enough history

of successful projects, unsurprisingly, because Myanmar just opened up. It is kind of like betting on a horse that has not ran any races yet. Why would you assume it will win? There are too many delays, too many cancelled projects, not enough success stories. This is affecting Myanmar's reputation as a suitable destination for investment in infrastructure.

To turn this around, I would recommend the Government to select just a few small projects, and focus attention on them for a short period of time so as to finalize commercial terms as rapidly as possible. Small projects are a lot easier to do than massive ones, and less can go wrong. If you are unsure what the commercial terms should be, bring in commercial advisers who are used to negotiating deals in practice, get comfortable following their lead and conclude the matter swiftly. The selected deals have to be with well-known investors with a strong reputation. Signing with companies like that sends a strong signal to all their competitors and to smaller investors as well. Signing with unknown and unproven companies, even though they have the lowest bid, sends the signal that you need to be a big risk taker to do a deal in Myanmar.

2. The Government is going to need to assure foreign investors that it will perform its contracts and pay its bills.

To attract investors, you need to make sure the banks of those investors will support their customer's projects. In infrastructure, very often the income needs to come at least in part from the Government (such as in power projects) or through the Government (such as with toll for transport infrastructure). So, in most infrastructure project there are some kind of financial commitments by the Government. Banks take nearly zero risk, and Myanmar, as a newly opened economy, does not yet have the a solid reputation for respecting those commitments. So, we will need a little more, for a while. Just as with other countries now and in the past, for the first few decades, Myanmar needs to provide guarantees to its investors that contracts such as power purchase agreements, PPP contracts and other project documents will be respected, and monies will be paid.

Many Myanmar senior officials and legislators are unfamiliar with this approach and they are worried this may be risky for the country. In my experience, there are huge misunderstandings between investors

asking for such guarantees and the officials involved, misunderstandings that are exasperated by information going up and down the administration hierarchy. One of the most damaging prejudices is that a guarantee of this nature would mean that the Government may have to pay the banks back in case the project fails. That is not the case. The Government only has to pay if it has done something wrong, failed to pay money that is clearly owed, or failed to respect the contract. In practice, when we look around Asia, it is rare that such guarantees are indeed called.

I believe that the Government has not yet come to an official and comprehensive position on when to provide such guarantees. There has been progress since 2014, when the first and pretty much only Government support was organized along the lines of that is expected internationally (although the deal was never completed as such). Now, five years later, there is a regulation explicitly referring to the possibility of Government support, and some useful ground rules (in the so-called Project Bank Notification) but still no actual deals signed. The quite slow pace of the progress, though understandable, is not inspiring confidence for investment in Myanmar infrastructure.

To turn this around, the Government should urgently decide to provide international standard guarantees on at least a few projects for a few years. Better yet, a real regulation on the financing of PPP projects applicable for the next few years, with actual detailed criteria so that all potential investors can see immediately if they qualify for a guarantee.

3. Myanmar should consider using "umbrella notes" to confirm its support for bilateral projects on a Government to Government level

There are probably no magic formulas that can resolve all problems for Myanmar in one go. But this one comes very close. An "umbrella note" is a letter between Governments where Myanmar promises to support investment and loans by companies from that foreign country into Myanmar, particularly if the foreign country has also helped to somehow pay for the project. Used successfully between Indonesia and Japan, the umbrella note is an overlaying level of



G2G assurance which will help free financing from overseas for projects in Myanmar. The issue is closely related to the guarantees which were discussed above. If well managed, the umbrella notes can mobilize massive funding for investment in Myanmar infrastructure.

4. Maximize private investment by de-risking the projects to a reasonable level.

If you want to create a strong surge in infrastructure investment, the Government should get comfortable with commercial structures that reduce some of the extreme project risk for the private investors. Each deal can be done in different ways. What Myanmar needs now, is choose the ways that promote private investment. The Government should choose for long term fixed prices of electricity instead of for "spot" prices or prices that depend on all kinds of external factors. For example, when it comes to power projects, it is cheaper for the Government to agree on capacity payments or payments for a guaranteed minimum volume rather than have variable energy payments.

To some, this sounds like giving away too much to the private investors. But we need to keep in mind that we are asking the private investor to put up all the money. The Government invests nothing and still gets to use the infrastructure from day one. Plus, the private sector will already assume plenty of risks such as the risk that the financing cannot be found, the considerable risk of construction cost and delays, operational problems, insurable force majeure events, etc.

5. The way commercial terms are being negotiated needs to change.

It takes too long before investors are clear on the key basic commercial and legal terms that the Government will indeed accept. All deals need to be approved by the Cabinet, and sometimes beyond. For a long time, investors are not sure if the project is actually going somewhere. If we could improve this process it would improve the country's reputation a lot in the international business community. Instead of the back and forth, the testing of positions between the investors and the Government (where each position may lead to another round of 6 months or more), the Government could decide first the range for the pricing and all other major terms and conditions, and offer these to one or several companies. The key is that you need to figure out first of the conditions you offer are commercially and legally feasible, and for that you need your own financial and legal advisors. Not every department has a culture of working well with consultants. In my experience, it depends on the people involved. If the Government could get more comfortable with using its own consultants as part of a rapid political decision making process, this would make a huge difference.

Once the key commercial terms are agreed, the Government should sign a legally binding commitment as soon as possible so that the investors can proceed. There is no use in delaying the moment the deal is confirmed.



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